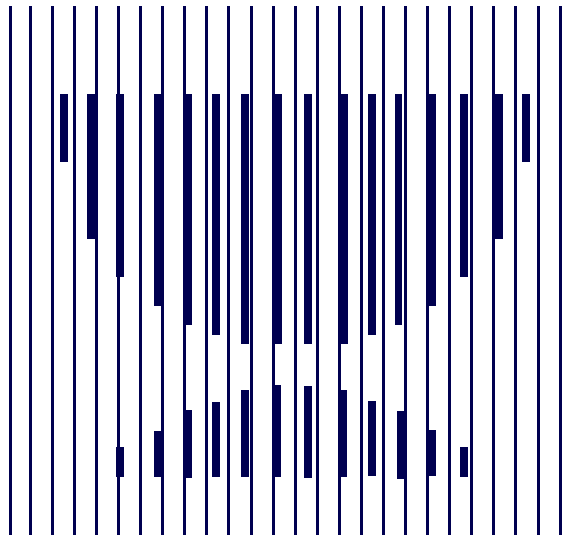


# CBO MEMORANDUM

**FEDERAL BUDGETARY IMPLICATIONS  
OF THE PERSONAL RESPONSIBILITY  
AND WORK OPPORTUNITY  
RECONCILIATION ACT OF 1996**

**December 1996**



**CONGRESSIONAL BUDGET OFFICE**



# **CBO**

# **MEMORANDUM**

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AND WORK OPPORTUNITY  
RECONCILIATION ACT OF 1996

December 1996



CONGRESSIONAL BUDGET OFFICE  
SECOND AND D STREETS, S.W.  
WASHINGTON, D.C. 20515

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## NOTES

Unless otherwise indicated, all years are fiscal years.

Numbers in the text and tables of this memorandum may not add to totals because of rounding.

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This Congressional Budget Office (CBO) memorandum describes the budgetary effects of Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. It is part of CBO's ongoing efforts to explain and document its cost estimates.

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## SUMMARY AND INTRODUCTION

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193) makes major changes in federal welfare programs. The act replaces federal payments under the current Aid to Families with Dependent Children program with a block grant to states, restricts the eligibility of legal aliens for welfare benefits, modifies the benefits and eligibility requirements in the Food Stamp and child nutrition programs, changes the operation and financing of the federal and state child support enforcement system, increases funding for child care programs, and tightens the eligibility requirements for disabled children under the Supplemental Security Income program. In this memorandum, the Congressional Budget Office (CBO) assesses the effects of welfare reform on the federal budget.

Although the act was signed by the President on August 22, 1996, its impact on direct spending and revenues in 1996 is negligible. The act reduces federal spending by an estimated \$2.9 billion in 1997 and by \$54.2 billion over the 1997-2002 period; it increases revenues by \$60 million and \$394 million, respectively. Summary Tables 1 and 2 present estimates of the act's budgetary effects by program and title.

### TITLE I: TEMPORARY ASSISTANCE FOR NEEDY FAMILIES BLOCK GRANT

Title I alters the method by which the federal government shares the cost of providing cash and training assistance to low-income families with children. It combines several current entitlement programs—Aid to Families with Dependent Children (AFDC), emergency assistance, and the Job Opportunities and Basic Skills Training (JOBS) program—into a single block grant with a fixed funding level. Title I also repeals current child care funding for low-income families. (Title VI establishes a new program to fund those activities.) Finally, it extends through 2001 an existing Medicaid benefit for families leaving public assistance and provides new funding for determining eligibility for Medicaid.

CBO projects that under prior law, 4.7 million families (13.1 million individuals) would have received AFDC cash benefits in 1997. By 2002, 5 million families (14 million individuals) would have been on the benefit rolls. The federal government would have spent an estimated \$15.9 billion on AFDC benefits, AFDC administration, AFDC emergency assistance, and the JOBS program in 1997—\$0.7 billion less than under title I (excluding child care and Medicaid). By

**SUMMARY TABLE 1. FEDERAL BUDGETARY EFFECTS OF P.L. 104-193, THE PERSONAL RESPONSIBILITY AND WORK OPPORTUNITY RECONCILIATION ACT OF 1996, BY PROGRAM (By fiscal year, in millions of dollars)**

	1995	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
<b>Projected Direct Spending Under Prior Law</b>									
Family support payments a/	18,086	18,371	18,805	19,307	19,935	20,557	21,245	21,937	n.a.
Food Stamp program b/	25,554	26,220	27,749	29,702	31,092	32,476	33,847	35,283	n.a.
Supplemental Security Income	24,510	24,017	27,904	30,210	32,576	37,995	34,515	40,348	n.a.
Medicaid	89,070	95,786	105,081	115,438	126,366	138,154	151,512	166,444	n.a.
Child nutrition c/	7,899	8,428	8,898	9,450	10,012	10,580	11,166	11,767	n.a.
Old-Age, Survivors, and Disability Insurance	333,273	348,186	365,403	383,402	402,351	422,412	444,081	466,767	n.a.
Foster care d/	3,282	3,840	4,285	4,687	5,083	5,506	5,960	6,433	n.a.
Social Services Block Grant	2,797	2,880	3,010	3,050	3,000	2,920	2,870	2,840	n.a.
Earned income tax credit	15,244	18,440	20,191	20,894	21,691	22,586	23,412	24,157	n.a.
Maternal and child health	0	0	0	0	0	0	0	0	n.a.
<b>Total</b>	<b>519,715</b>	<b>546,168</b>	<b>581,326</b>	<b>616,140</b>	<b>652,106</b>	<b>693,186</b>	<b>728,608</b>	<b>775,976</b>	<b>n.a.</b>
<b>Changes</b>									
Family support payments a/	0	e	875	900	907	777	471	-131	3,800
Food Stamp program b/	0	e	-2,098	-3,949	-4,139	-4,209	-4,349	-4,583	-23,330
Supplemental Security Income	0	e	-793	-3,526	-4,280	-4,824	-4,344	-4,958	-22,725
Medicaid	0	0	-38	-514	-567	-581	-948	-1,433	-4,082
Child nutrition c/	0	e	-128	-403	-494	-553	-605	-670	-2,853
Old-Age, Survivors, and Disability Insurance	0	0	-5	-10	-15	-15	-20	-20	-85
Foster care d/	0	e	68	25	16	31	41	51	232
Social Services Block Grant	0	0	-375	-420	-420	-420	-420	-420	-2,475
Earned income tax credit	0	0	-445	-456	-463	-480	-493	-515	-2,852
Maternal and child health	0	0	0	18	35	50	50	50	203
<b>Total</b>	<b>0</b>	<b>e</b>	<b>-2,939</b>	<b>-8,335</b>	<b>-9,419</b>	<b>-10,224</b>	<b>-10,618</b>	<b>-12,630</b>	<b>-54,167</b>
<b>Revenues</b>									
Earned income tax credit	0	e	60	61	62	65	68	78	394
<b>Net Deficit Effect</b>	<b>0</b>	<b>e</b>	<b>-2,999</b>	<b>-8,396</b>	<b>-9,481</b>	<b>-10,289</b>	<b>-10,686</b>	<b>-12,708</b>	<b>-54,561</b>
<b>Projected Direct Spending Under P.L. 104-193</b>									
Family support payments a/	18,086	18,371	19,680	20,207	20,842	21,334	21,716	21,806	n.a.
Food Stamp program b/	25,554	26,220	25,651	25,753	26,953	28,267	29,498	30,700	n.a.
Supplemental Security Income	24,510	24,017	27,111	26,684	28,296	33,171	30,171	35,390	n.a.
Medicaid	89,070	95,786	105,043	114,924	125,799	137,573	150,564	165,011	n.a.
Child nutrition c/	7,899	8,428	8,770	9,047	9,518	10,027	10,561	11,097	n.a.
Old-Age, Survivors, and Disability Insurance	333,273	348,186	365,398	383,392	402,336	422,397	444,061	466,747	n.a.
Foster care d/	3,282	3,840	4,353	4,712	5,099	5,537	6,001	6,484	n.a.
Social Services Block Grant	2,797	2,880	2,635	2,630	2,580	2,500	2,450	2,420	n.a.
Earned income tax credit	15,244	18,440	19,746	20,438	21,228	22,106	22,919	23,642	n.a.
Maternal and child health	0	0	0	18	35	50	50	50	n.a.
<b>Total</b>	<b>519,715</b>	<b>546,168</b>	<b>578,387</b>	<b>607,805</b>	<b>642,686</b>	<b>682,962</b>	<b>717,991</b>	<b>763,347</b>	<b>n.a.</b>

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

NOTE: n.a. = not applicable.

- Under prior law, family support payments include spending on Aid to Families with Dependent Children (AFDC), AFDC-related child care, administrative costs for child support enforcement, net federal savings from child support collections, and the Job Opportunities and Basic Skills Training program (JOBS). Under P.L. 104-193, family support payments include spending on the Temporary Assistance for Needy Families Block Grant, administrative costs for child support enforcement, the Child Care Block Grant, and net federal savings from child support collections.
- The Food Stamp program includes Nutrition Assistance for Puerto Rico and the new Emergency Food Assistance program.
- Child nutrition refers to direct spending authorized by the National School Lunch Act and the Child Nutrition Act.
- Under prior law, foster care includes the foster care program, adoption assistance, Independent Living, and Family Preservation and Support. Under P.L. 104-193, foster care includes those programs plus the National Random Sample Study of Child Welfare.
- Less than \$500,000.

**SUMMARY TABLE 2. FEDERAL BUDGETARY EFFECTS OF P.L. 104-193, THE PERSONAL RESPONSIBILITY AND WORK OPPORTUNITY RECONCILIATION ACT OF 1996, BY PROGRAM (By fiscal year, in millions of dollars)**

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
<b>Title I: Temporary Assistance For Needy Families Block Grant</b>								
Budget authority	10	-212	-1,125	-989	-837	-1,109	-1,839	-6,100
Outlays	a	-569	-937	-819	-667	-1,054	-1,814	-5,859
<b>Title II: Supplemental Security Income</b>								
Budget authority	a	-408	-1,031	-1,525	-1,869	-1,729	-2,048	-8,610
Outlays	a	-408	-1,031	-1,525	-1,869	-1,729	-2,048	-8,610
<b>Title III: Child Support Enforcement</b>								
Budget authority	88	-21	144	168	183	110	74	746
Outlays	a	25	148	172	184	110	74	712
<b>Title IV: Restricting Welfare and Public Benefits for Aliens</b>								
Budget authority	a	-1,174	-3,947	-4,311	-4,662	-4,525	-5,036	-23,655
Outlays	a	-1,174	-3,947	-4,311	-4,662	-4,525	-5,036	-23,655
<b>Title V: Child Protection</b>								
Budget authority	6	86	6	6	6	6	6	122
Outlays	a	68	25	6	6	6	6	117
<b>Title VI: Child Care</b>								
Budget authority	a	1,967	2,067	2,167	2,367	2,567	2,717	13,852
Outlays	a	1,635	1,975	2,082	2,227	2,377	2,482	12,778
<b>Title VII: Child Nutrition Programs</b>								
Budget authority	a	-151	-449	-505	-563	-615	-680	-2,963
Outlays	a	-128	-403	-494	-553	-605	-670	-2,853
<b>Title VIII: Food Stamps and Commodity Distribution</b>								
Budget authority	a	-1,792	-3,539	-3,918	-4,282	-4,580	-4,990	-23,103
Outlays	a	-1,792	-3,539	-3,918	-4,282	-4,580	-4,990	-23,103
<b>Title IX: Miscellaneous</b>								
Budget authority	0	-641	-594	-597	-608	-618	-634	-3,692
Outlays	0	-596	-626	-612	-608	-618	-634	-3,694
<b>Total</b>								
Budget authority	104	-2,346	-8,468	-9,504	-10,265	-10,493	-12,430	-53,403
Outlays	a	-2,939	-8,335	-9,419	-10,224	-10,618	-12,630	-54,167

SOURCE: Congressional Budget Office.

a. Less than \$500,000.

2002, projected spending under prior law (\$18.3 billion) would have exceeded projected spending under title I (excluding child care and Medicaid) by \$0.3 billion (see Table 1).

#### Effect of the Block Grant on Cash Benefits and Training Assistance

The Temporary Assistance for Needy Families (TANF) block grant replaces federal participation for AFDC benefit payments, AFDC administrative costs, AFDC emergency assistance benefits, and the JOBS program. The act sets the base level of the block grant at \$16.4 billion annually through 2002. Each state is entitled to a portion of the grant based on its recent spending in the AFDC and JOBS programs. States can operate under the AFDC and JOBS programs until July 1, 1997. States will not use the entire \$16.4 billion block grant in 1997 because most states will operate under the AFDC and JOBS programs for part of the year. A state's 1997 block grant will be reduced by the greater of (1) the amount the state receives under the AFDC and JOBS programs in 1997 or (2) the percentage of the year the state operates under the old program times the amount of the state's block grant.

A state can qualify to receive more than the amount of the basic block grant in four ways. First, a state that meets specified criteria related to its poverty level and population growth will receive a supplemental grant in 1998 equal to 2.5 percent of 1994 federal payments to the state for AFDC, emergency assistance, and JOBS. In each successive year that the state meets the criteria, the supplemental grant will increase. Supplemental grants will be available from 1998 through 2001, and the total amount of additional funding for those grants is capped at \$800 million. A state that does not meet the qualifying criteria in 1998 will not be eligible to qualify in any later year. CBO estimates that 20 states will receive supplemental grants totaling \$87 million in 1998, rising to \$278 million by 2001 (see Table 1).

Second, up to five states can receive bonuses of \$20 million to \$25 million each year from 1999 through 2002 if the number of out-of-wedlock births in the state for the prior two years decreases compared with the number of out-of-wedlock births in the two-year period before that. A state will not be eligible for such a grant in a year in which its abortion rate is higher than its 1995 rate. Because there is no good basis for projecting the effect of the act on out-of-wedlock births, CBO relied on historical data. If the policy had been in place in a recent five-year period, an average of two states a year would have qualified for grants. Therefore, the estimate assumes that, on average, two states will qualify each year at an annual federal cost of \$50 million. Even if more states reduce the number of out-of-wedlock births, the cost cannot exceed \$100 million a year.

TABLE 1. FEDERAL BUDGETARY EFFECTS OF THE TEMPORARY ASSISTANCE FOR NEEDY FAMILIES BLOCK GRANT IN TITLE I OF P.L. 104-193 (By fiscal year, in millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
<b>By Provision</b>								
<b>Repeal of AFDC, Emergency Assistance, and JOBS Programs</b>								
Family support payments								
Budget authority	a	-8,021	-16,550	-17,003	-17,439	-17,893	-18,342	-95,247
Outlays	a	-7,925	-16,510	-16,973	-17,409	-17,863	-18,322	-95,001
<b>Repeal of Child Care Programs b/</b>								
Family support payments								
Budget authority	0	-1,405	-1,480	-1,540	-1,595	-1,655	-1,715	-9,390
Outlays	0	-1,345	-1,475	-1,535	-1,590	-1,650	-1,710	-9,305
<b>Authorize Temporary Family Assistance Block Grant</b>								
Family support payments								
Budget authority	a	8,368	16,389	16,389	16,389	16,389	16,389	90,314
Outlays	a	8,300	16,389	16,389	16,389	16,389	16,389	90,246
<b>Supplemental Grants Related to Population Growth and Poverty Level</b>								
Family support payments								
Budget authority	0	0	87	174	261	278	0	800
Outlays	0	0	87	174	261	278	0	800
Food Stamp program								
Budget authority	0	0	-5	-10	-15	-15	0	-45
Outlays	0	0	-5	-10	-15	-15	0	-45
<b>Grants to States that Reduce Out-of-Wedlock Births</b>								
Family support payments								
Budget authority	0	0	0	50	50	50	50	200
Outlays	0	0	0	50	50	50	50	200
<b>Bonus to Reward High-Performance States</b>								
Family support payments								
Budget authority	0	0	0	200	200	200	200	800
Outlays	0	0	0	200	200	200	200	800
<b>Contingency Fund c/</b>								
Family support payments								
Budget authority	0	107	210	313	393	473	565	2,061
Outlays	0	107	210	313	393	473	565	2,061
Food Stamp program								
Budget authority	0	-5	-15	-20	-25	-30	-35	-130
Outlays	0	-5	-15	-20	-25	-30	-35	-130
<b>Study by the Bureau of the Census</b>								
Family support payments								
Budget authority	10	10	10	10	10	10	10	70
Outlays	a	4	18	10	10	10	10	62

(Continued)

TABLE 1. Continued

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
<b>Research, Evaluations, and National Studies</b>								
Family support payments								
Budget authority	0	15	15	15	15	15	15	90
Outlays	0	3	15	15	15	15	15	78
<b>Grants to Indian Tribes that Received JOBS Funds in 1995</b>								
Family support payments								
Budget authority	0	8	8	8	8	8	8	46
Outlays	0	6	8	8	8	8	8	44
<b>Hold States Harmless for Cost-Neutrality Liabilities</b>								
Family support payments								
Budget authority	0	50	0	0	0	0	0	50
Outlays	0	50	0	0	0	0	0	50
<b>Penalties for States' Failure to Meet Work Requirements</b>								
Family support payments								
Budget authority	0	0	0	-50	-50	-50	-50	-200
Outlays	0	0	0	-50	-50	-50	-50	-200
<b>Grants to Territories</b>								
Family support payments								
Budget authority	0	116	116	116	116	116	116	696
Outlays	0	116	116	116	116	116	116	696
<b>Extension of Transitional Medicaid Benefits</b>								
Medicaid								
Budget authority	0	0	0	180	390	400	210	1,180
Outlays	0	0	0	180	390	400	210	1,180
<b>Increased Medicaid Administrative Payment</b>								
Medicaid								
Budget authority	0	500	0	0	0	0	0	500
Outlays	0	75	135	135	135	20	0	500
<b>Effect of the Block Grant on Other Programs</b>								
Food Stamp program								
Budget authority	0	45	90	170	430	560	695	1,990
Outlays	0	45	90	170	430	560	695	1,990
Foster care program								
Budget authority	0	0	0	10	25	35	45	115
Outlays	0	0	0	10	25	35	45	115

(Continued)



TABLE 1. Continued

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
<b>By Account</b>								
Family Support Payments								
Budget authority	10	-752	-1,195	-1,319	-1,642	-2,059	-2,754	-9,710
Outlays	0	-684	-1,142	-1,284	-1,607	-2,024	-2,729	-9,469
Food Stamp Program								
Budget authority	0	40	70	140	390	515	660	1,815
Outlays	0	40	70	140	390	515	660	1,815
Foster Care Program								
Budget authority	0	0	0	10	25	35	45	115
Outlays	0	0	0	10	25	35	45	115
Medicaid								
Budget authority	0	500	0	180	390	400	210	1,680
Outlays	0	75	135	315	525	420	210	1,680
<b>Total</b>								
All Provisions/ All Accounts								
Budget authority	10	-212	-1,125	-989	-837	-1,109	-1,839	-6,100
Outlays	0	-569	-937	-819	-667	-1,054	-1,814	-5,859
Excluding Child Care and Medicaid								
Budget authority	10	693	355	371	368	146	-334	1,610
Outlays	0	701	403	401	398	176	-314	1,766

SOURCE: Congressional Budget Office.

NOTE: AFDC = Aid to Families with Dependent Children; JOBS = Job Opportunities and Basic Skills Training.

- a. Less than \$500,000.
- b. Funds for previous child care programs are repealed by this title, but equal or greater funding for similar activities is restored in title VI.
- c. The act appropriates \$2 billion for the contingency fund for use in years 1997 through 2001. The estimate shows costs of the contingency fund in 2002 because section 257(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985 requires that the baseline assume that mandatory programs greater than \$50 million are continued.

Third, a state that meets criteria set by the Secretary of Health and Human Services (HHS) for high performance in meeting the goals of the act can receive a bonus of up to 5 percent of its block grant each year. High-performance bonuses are capped at \$200 million each year for the 1999-2003 period.

Fourth, the act establishes the Contingency Fund for State Welfare Programs for use by states in the 1997-2001 period. The \$2 billion in the fund will be available to states with high and increasing unemployment rates or growth in Food Stamp caseloads.<sup>1</sup> CBO assumes that the contingency fund will continue in 2002 under the same terms. (The Balanced Budget and Emergency Deficit Control Act of 1985 requires that mandatory programs greater than \$50 million be continued in the baseline.) A state that is eligible in each month of the year can receive an annual maximum of 20 percent of its block grant amount. States are required to continue at least their historical level of spending and to match federal payments at the rate used in the Medicaid program. CBO estimates that states will draw down about \$100 million from the contingency fund in 1997 and will use a little more than \$2 billion from the fund over the 1997-2002 period. Use of the contingency fund will grow from year to year as an increasing number of states register significant growth in the Food Stamp program since 1994 or 1995.

The act authorizes the Secretary of HHS to make loans to states to use for welfare programs. States may borrow up to 10 percent of their family assistance grants and will have to repay borrowed amounts, with interest, within three years. Any state may borrow from the loan fund in any year regardless of its economic circumstances. CBO estimates that the new authority to make loans will not generate additional outlays. Although up to \$1.7 billion will be made available to states for loans, CBO assumes that every state that borrows funds will repay its loans with interest. Since the Secretary has the authority to withhold any unpaid loan amount from future payments under the TANF block grant, the program involves no long-run loss to the federal government, and under the credit reform provisions of the Congressional Budget Act, it has no cost.

The act makes several other changes affecting family support payments. It provides additional federal funds for a study by the Bureau of the Census (\$10 million per year); research, evaluations, and national studies (\$15 million per year); and grants for Indian tribes that received JOBS funds in 1995 (\$7.6 million per

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1. A state whose unemployment rate for the most recent quarter is greater than or equal to 6.5 percent and at least 10 percent higher than the unemployment rate for either of the corresponding quarters in the two previous years will be eligible to draw from the contingency fund. Also, a state whose participation in the Food Stamp program increases by at least 10 percent over its participation for 1994 or 1995 (adjusted for the impact of this act had it been in effect in those years) will be eligible. A state will be eligible in any month it meets one of those criteria and in the following month.

year).<sup>2</sup> States that were operating demonstration projects under waivers are allowed to discontinue those projects. The states are not required to pay the federal government for any federal costs accrued under those waivers. That provision will cost the federal government \$50 million in 1997. In addition, states that fail to meet the act's work participation requirements will be subject to penalties totaling an estimated \$50 million annually from 1999 through 2002. Finally, the act makes more money available to territories for assistance programs and provides greater flexibility in how the money is spent. The new \$116 million cap on payments to the territories represents an increase of about \$10 million over prior-law amounts, which comprised a part of the family support payments repealed by this act.

In the Medicaid program, the act maintains the current-law transitional benefits for people who would otherwise lose coverage because of increased child support or increased earnings from employment. The act extends the sunset date for that benefit from 1998 to 2001 at a cost of up to \$400 million each year. In general, the act retains categorical eligibility for Medicaid families who meet the eligibility criteria for AFDC—that is, such families are not affected by changes in eligibility for welfare resulting from the new block grant program. The act provides up to \$500 million over the 1997-2000 period for additional administrative expenses incurred in determining eligibility.

#### Criteria for State Participation in the Block Grant

To participate in the block grant program, states must present an assistance plan to the Department of Health and Human Services and must ensure that block grant funds are spent only on needy families with minor children. States are required to continue to spend some of their own resources in order to receive their full allotment from the block grant. The federal grant will be reduced one dollar for every dollar that a state's spending falls below 80 percent of its historical spending level (75 percent of the historical level for any state that meets the act's work participation requirements).

States must also satisfy other conditions. Notably, they are prohibited from providing federal dollars to most families who receive cash assistance for more than five years after the effective date of the block grant program (July 1, 1997, or earlier at state option). States may choose a shorter time limit and may grant hardship exemptions for up to 20 percent of all families. Although no family can encounter a five-year time limit until October 1, 2001, the limit's effect on welfare participation may be noticed sooner if recipients shorten their stays on welfare or delay

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2. Public Law 104-208, the Omnibus Consolidated Appropriations Act, subsequently rescinded the appropriation for research, evaluations, and national studies in 1997.

childbearing in order to preserve access to the system in future years. The full effect of such a limit will probably not be realized until 2004 or later. Under current demographic assumptions, this provision could eventually reduce cash assistance rolls by 30 percent to 40 percent. The actual effect of the time limit on families is uncertain, however, because states and localities may provide cash assistance to such groups using their own resources. The inclusion of the time limit in the legislation does not affect the estimate of federal costs through 2002 because it does not directly change the amount of block grant funds disbursed to the states and will not yet have a significant effect on caseloads. After 2002, when the full effect of the time limit is realized, reductions in TANF caseloads and benefits will increase costs in the Food Stamp and Child Support Enforcement programs.

### Work and Training Requirements Under the Block Grant

Title I requires states to provide work and training activities for a growing percentage of recipients of Temporary Assistance to Needy Families or face penalties. States will face three separate requirements, each becoming increasingly difficult to satisfy over time.

First, the act requires that states have 25 percent of certain families receiving cash assistance in work activities in 1997. The required participation rates will rise by 5 percentage points a year through 2002. In general, the required participation rate is reduced by 1 percentage point for each percentage point that a state's caseload is below its 1995 level. Reductions in caseload stemming from changes in federal or state eligibility rules are not counted. Participants will be required to work 20 hours a week through 1998, 25 hours in 1999, and 30 hours in 2000 and after. Families with no adult recipient or with a recipient experiencing a sanction for nonparticipation (for up to three months) are not included in the participation calculation. Families in which the youngest child is less than a year old will be exempt for up to one year at the state's option.

Starting in 2002, states will have to show on a monthly basis that individuals in up to 50 percent of all nonexempt families are participating in work activities. At this time, without knowing how states will respond to the act, it is difficult to estimate the effect of the act on welfare caseloads. Taking account of reductions in projected caseload and the number of families in the exempt categories, CBO estimates that meeting that goal will require the participation of as many as 1.7 million recipients nationwide. By contrast, program data for 1994 indicate that, in an average month, only about 450,000 individuals participated at least 20 hours per week in the JOBS program. (The act limits the number of individuals in education and training programs who can be counted as participants, so many current JOBS participants will not qualify as participants under the new program.)

Most states will be unlikely to satisfy this requirement for several reasons. The costs of administering such a large-scale work and training program will be high, and federal funding will be frozen at historical levels. CBO estimates that states will need to invest an additional \$13 billion in 1997 through 2002 in order to administer programs that satisfy the requirements (see Box 1). Because employment programs have had only modest success in reducing the welfare caseload, states may be reluctant to commit their own funds to such programs. Some states may technically meet the required participation requirement without increasing the number of recipients working. For example, if a state simply transfers a large share of its current cases to a state-funded assistance program while nominally maintaining their eligibility for TANF, it can significantly reduce its caseload in the TANF program and consequently reduce its required participation rate. If several states take that approach, or if TANF caseloads decline more rapidly for other reasons, fewer than 1.7 million recipients will be required to participate in work activities.

Second, while tracking the work requirement for all families, states must simultaneously track a separate guideline for the smaller number of nonexempt families with two parents participating in the AFDC-Unemployed Parent (AFDC-UP) program. About 300,000 two-parent families currently participate in the AFDC-UP program. The act requires that by 2002, 90 percent of such families include an adult who participates in work-related activities at least 35 hours per week. In addition, if the family uses federal funds to pay for child care, the spouse must participate in work activities at least 20 hours per week. In 1994, states attempted to implement a requirement that 40 percent of AFDC-UP families participate, but roughly 40 states failed to meet that level of participation.

Third, states must ensure that all parents who have received cash assistance for more than two years engage in work activities. Approximately 70 percent of all parents on the cash assistance rolls in 2002 will have received such assistance for two years or more since the act's effective date of August 1996. The experience of the JOBS program to date suggests that implementing such a requirement is well outside the states' abilities.

In sum, each work requirement will represent a significant challenge to states. Given the costs and administrative complexities involved, CBO assumes that most states will simply accept penalties rather than try to meet the requirements. The act authorizes penalties of up to 5 percent of the block grant amount for the first failure to meet the requirements and increasing penalties for each subsequent failure. However, CBO assumes—consistent with current practice—that the Secretary of Health and Human Services will impose small penalties (less than one-half of one percent of the block grant) on noncomplying states. No penalty is specified for states that fail to require parents who have received cash assistance for more than two years to engage in work activities.

BOX 1.  
COST OF MEETING THE WORK REQUIREMENTS

The welfare reform legislation requires that a large and increasing percentage of welfare recipients participate in work or training programs. The Congressional Budget Office (CBO) estimates that the cost of a work program that meets those requirements could involve as many as 1.7 million participants by 2002 and could cost as much as \$21.2 billion over the 1997-2002 period (see the accompanying table). The estimate assumes that states maintain a level of quality in their work programs similar to the level that exists today, and that states do not attempt to avoid meeting the work requirements by transferring a large share of their current caseload in the Aid to Families with Dependent Children (AFDC) program to state-funded general assistance programs. Because the costs of meeting the work requirements are high, CBO's federal cost estimate assumes that states are more likely to accept penalties than to meet the requirements.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193) does not specifically earmark any funding for work programs. Instead, the costs of work programs are one of the allowed expenditures under the Temporary Assistance for Needy Families (TANF) block grant. The block grant is set at \$16.4 billion a year—a level similar to recent federal spending on the AFDC, Job Opportunities and Basic Skills Training (JOBS), and emergency assistance programs. In 1994, federal and state spending on JOBS amounted to \$1.4 billion. If states continued to spend that amount on work programs, they would be underfunded by \$13.1 billion over the 1997-2002 period. States could spend a larger share of the block grant on work programs, however, if they reduced other services.

The act prohibits a state from cutting off assistance for refusal to work if an individual is the single parent of a child under age 6 and if suitable and affordable child care is not available. As a result, a state must assist TANF recipients in obtaining child care if it is to meet the law's work requirements. The law provides \$13.9 billion in federal funds for that purpose; together with the states' matching share, \$24.0 billion would be available for child care over the 1997-2002 period. In comparison, CBO estimates that if states met the work requirements, the cost of providing work-related child care would total only \$18.9 billion over the same period. However, if states provided child care to participants in work programs and maintained spending on the Transitional and At-Risk Child Care programs, which the new law repeals, they would have to spend a cumulative total of \$25.4 billion.<sup>1</sup> CBO's estimate assumes that in order to meet the work requirements of the law, states would have to pay all the costs of caring for children under age 6 and most of the costs for older children.

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1. The Transitional Child Care program guaranteed child care for up to 12 months for families

**ESTIMATED COST OF THE WORK PROGRAM AND RELATED CHILD CARE**  
(By fiscal year, in millions of dollars)

	1997	1998	1999	2000	2001	2002	Total 1997-2002
<b>Work Program</b>							
Estimated Cost of the Work Program	1,730	2,200	2,980	3,985	4,740	5,595	21,230
Spending for the JOBS Program in 1994	1,360	1,360	1,360	1,360	1,360	1,360	8,160
Shortfall	-370	-840	-1,620	-2,625	-3,380	-4,235	-13,070
<b>Work-Related Child Care</b>							
Estimated Cost of Child Care if States Meet the Work Requirements	1,510	1,990	2,690	3,550	4,230	4,970	18,940
Funding for Child Care Under P.L. 104-193	3,410	3,580	3,750	4,090	4,430	4,690	23,950
Excess or Shortfall (-)	1,900	1,590	1,060	540	200	-280	5,010
<b>Work-Related, At-Risk, and Transitional Child Care</b>							
Estimated Cost of Child Care if States Meet the Work Requirements	1,510	1,990	2,690	3,550	4,230	4,970	18,940
Spending for At-Risk and Transitional Child Care Under Prior Law	<u>980</u>	<u>1,030</u>	<u>1,060</u>	<u>1,090</u>	<u>1,110</u>	<u>1,140</u>	<u>6,410</u>
Total	2,490	3,020	3,750	4,640	5,340	6,110	25,350
Funding for Child Care Under P.L. 104-193	3,410	3,580	3,750	4,090	4,430	4,690	23,950
Excess or Shortfall (-)	920	560	0	-550	-910	-1,420	-1,400

SOURCE: Congressional Budget Office.

NOTE: Amounts include both federal and state shares.